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S E C R E T SECTION 01 OF 03 TUNIS 000387

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STATE FOR NEA/MAG (HARRIS), NEA/PI AND  
EEB/TPP/ABT/ATP (SPECK)  
STATE PASS USTR (BURKHEAD)  
USDOC FOR ITA/MAC/ONE (NATHAN MASON)  
CASABLANCA FOR FCS (ORTIZ)  
CAIRO FOR FINANCIAL ATTACHE (SEVERENS)  
LONDON AND PARIS FOR NEA WATCHER

E.O. 12958: DECL: 04/18/2018

TAGS: ECON ETRD PGOV KDEM TS

SUBJECT: TUNISIAN ECONOMIC PROBLEMS BREED SOCIAL UNREST

REF: A. TUNIS 362  
B. TUNIS 131  
C. 07 TUNIS 1528  
D. 07 TUNIS 1443  
E. 07 TUNIS 1433  
F. 06 TUNIS 1672 (AND PREVIOUS)

Classified By: Ambassador Robert F. Godec for Reasons 1.4 (b) and (d).

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Summary  
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11. (S/NF) The Tunisian economy posted solid growth in 2007 -- hitting 6.3 percent GDP growth for the year. Yet, for all the positive economic figures touted by the GOT, not everyone believes the hype. Regardless of whether the statistics are accurate, Tunisians are undisputedly feeling the pinch of rising inflation (up to 8.6 percent for food products) and high unemployment. Recent protests in the mining area of Gafsa (Refs A, B) -- an area with a particularly acute unemployment problem and a history of rebellion -- reveal increasing dissatisfaction with the status quo and with GOT efforts to address these problems. Thus far, the GOT has not only been reluctant to acknowledge the depth of these problems or the existence of any unrest, but has actively censored newspaper articles addressing the protests, food price inflation, and unemployment. The GOT's denial does little to hide economic woes from average Tunisian and even less to solve the problems. Although on the surface the problems are economic, economists are quick to point out that there is no economic solution to the political problem of governance. End Summary.

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A "Model" for the Region  
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12. (SBU) The Tunisian economy posted positive, and impressive, growth figures for 2007 -- hitting 6.3 percent GDP growth despite climbing world prices and slow economic performance in many of its traditional trading partners. Long-term Tunisian economic development has been similarly robust, with an average of five percent annual growth over the last decade. The GOT is often praised by international financial institutions for its sound economic and social policies, which have delivered one of the highest standards of living on the continent. With an extremely low poverty rate (3.9 percent), a solid middle class (nearly 80 percent), impressive literacy rates (74 percent), strong protection of

women's rights and a decidedly secular and moderate population, Tunisia presents an attractive model for the region.

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Don't Believe the Hype  
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¶3. (S/NF) Despite positive economic numbers, many Tunisians are not cheering. Ezzedine Saidane, private economic consultant and former bank chairman, stated he does not trust the numbers. Noting the dubious calculation of the inflation rate, based on an ill-weighted basket of goods, Saidane opined the real inflation rate is likely much higher (Ref C). Joking about the GOT effort to keep official inflation low by reducing the size of price-controlled bread loaves, Saidane exclaimed that the government was demonstrating its "disrespect" for the people. Another economic consultant argued that rather than growing, the economy is actually experiencing stagflation, exclaiming, "People talk about the Tunisian economic miracle? It's ridiculous." When asked for his evaluation of Tunisia's economic performance one venture capitalist sighed and stated, "I have to believe the numbers. There are no other numbers!"

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Growth, But for Whom?  
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¶4. (C) While some doubt the government numbers, other economists believe that the economy is growing steadily, but that only a select few are actually benefiting from the growth. World Bank (WB) Country Director Ndiame Diop noted his surprise at the 6.3 percent growth, but stated that the

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numbers are consistent and that he believes them to be accurate. Marouane Abassi, Professor of Economics and WB consultant, stressed that most Tunisians are not seeing a 6 percent increase in wages, but are still suffering from 5 percent inflation. According to Abassi, this represents an important redistribution of wealth in a country that prides itself on its solid middle class. Persistent rumors of corruption by the ruling elite (Ref F), accompanied by conspicuous displays of wealth, have only fueled unease about the GOT's economic management. A video of the Redeyef protests (Refs A and B) posted on Youtube reflects growing discontent at this divide, with one holding a sign saying: "The people's money is in palaces, and the people's children are living in tents."

¶5. (C) In conversations with Tunisians from all walks of life, few express optimism about the future. Tunisians complain of rising inflation (Ref C), low wages, and for many, bleak job prospects (Ref D). Inflation for the first three months of 2008 is up 5.8 percent over the same period in 2007, with food inflation at 8.7 percent. The GOT recently revised the official unemployment rate to 14.1 percent, up from 13.9, but this number fails to capture the severity of the problem for some specific groups. A recently released World Bank report calculated that the unemployment rate for university graduates is 46 percent 18 months after graduation and tops 50 percent for those with masters degrees. Although the GOT is banking on foreign direct investment to help create the jobs necessary to reduce inflation and spur continued growth, Tunisian investors remain skittish. Given the solid economic growth rates, private domestic investment remains surprisingly low (12.5 percent) and nearly half the rate of Morocco (Ref E).

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What Problems?  
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¶6. (S/NF) The GOT response to rising frustration has thus far been to deny that any significant problems exist. In the

past month, the GOT has taken an active role in censoring articles that address unemployment or inflation. A March article on unemployment was reportedly censored by government daily La Presse. In recent weeks, issues of independent weekly al-Mowqif containing articles on shrinking loaves of bread and poor quality cooking oil were pulled from the newsstands. Similarly, mainstream press coverage of recent protests in Redeyef has been virtually nonexistent. At times it appears that GOT actions extend beyond censorship and border on outright denial. During a lengthy and glowing discourse on Tunisia's economy given by the Ministry of Development and International Cooperation's Secretary of State Abdelhamid Triki at an April 10 World Bank - OECD hosted conference, one GOT official leaned over to Econoff and mockingly summarized the speech saying, "There are no problems. We don't need your help." Saidane compared the Tunisian economy to a sick patient who refuses to go to the doctor. "If you don't acknowledge that there are problems," he lamented, "how can you find a remedy?"

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Political Roots  
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**¶7.** (S/NF) Even as the GOT attempts to deny the existence of any cracks in the system, economists, and perhaps even average Tunisians, are increasingly quick to point the finger at the government itself. During a discussion on the country's economic woes, Professor of Economics Azzam Mahjoub hesitantly gave voice to a growing view, whispering to Econoff that, "Ultimately, we are facing a problem of governance." The WB's Diop stressed that the restricted access to information and lack of dialogue on national problems prevented the GOT from reaching effective solutions, making Tunisia "the perfect example of how the lack of democracy affects the economy." While the inability to openly debate national problems remains a serious barrier to solving them, the allegations of corruption have earned the distrust of many Tunisians. Diop emphasized that he could propose no economic explanation for the weak rate of Tunisian investment at a time of solid economic growth. Rather than pointing to specific economic factors, Tunisians tell us the possibility of being targeted by corrupt and influential officials is so great that they no longer have any incentive

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to invest. Diop lamented that "there is no economic solution to a problem that is ultimately political."

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Comment  
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**¶8.** (S/NF) Tunisia has long been considered a model for economic development, but the model has weaknesses and is losing some of its luster. The GOT continues to tout its previous economic successes, but the stability it has prided itself for is beginning to look more like stagnation for too many Tunisians. Rising inflation, combined with high unemployment, have fueled growing frustration. Although the GOT is at the mercy of rising world prices, persistent rumors of the Ben Ali clan's corruption and conspicuous displays of wealth have the potential to move the normally apolitical Tunisian populace to protest. The GOT's censorship and denial does little to hide economic woes from average Tunisians and even less to solve the problems. The absence of press freedoms, allegations of corruption, and lack of open debate present a major challenges for Tunisian's continued economic success. For a government that justifies its rule on the basis of economic growth, the GOT ignores this situation at its peril. We are not predicting that the building discontent will spell the end of the regime, but the potential for continued and growing unrest is there, and of course, the southern phosphate mining region of Gafsa has a history of rebellion. Moreover, many Tunisians still recall the "bread riots" of 1984, when thousands took to the streets

after an increase in the price of bread. In that case the GOT quelled the protest by lowering the bread price; a palliative for the current discontent might well be harder to find. End Comment.

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